clearstead

RESEARCH CORNER

June 27, 2022

OBSERVATIONS

- Tightening global monetary policies and slowing global growth weighing on commodities, copper has declined -18.6% (15-month lows) since reaching multi decade highs earlier this year on March 4. Broader commodity indexes are down over -7% this month, as of June 24.[1]
- Polarized housing markets: Sales of existing homes fell -3.4% from April to May and are -8.6% below this time last year. Most of the weakness has been observed in the lower end market (houses priced between $100k and $250k) which are down -27.0% from a year ago. Meanwhile, higher end homes (those above $750k) continue to be strong with sales up over +20.0% from this time last year.[2]
- The Czech central bank lifted its benchmark interest rate by 125bps. The central bank joins nearly two dozen other central banks, most of which reside within emerging economies, that have raised their respective benchmark interest rates by at least 100bps in a single meeting this year in a bid to ease inflation.[1]
- According to Deutsche Bank, the 10-yr U.S. Treasury's -10% return year to date (through the end of May) is the worst first five months of any calendar since 1788 (*Deutsche cites research firm GFD which builds long term data series using historical records, market data, and interpolation*).[1]
- Purchasing Manager Index (PMI) data came in less than forecast with the composite PMI figure registering 51.2, as compared to expectations of 53.0. The decline versus expectations was driven by the manufacturing sub index which posted its largest month-over-month decline since 2007.[1]

EXPECTATIONS

- Initial jobless claims for the prior week came in at 229k, and the 4-week moving average has risen to 224k, the highest since the first week of February 2022. The reverberations of excesses being removed in parts of the technology ecosystem are showing in 'start-up' technology companies as layoffs there have reached pandemic-era levels and are likely headed higher.[3]
- The "R" word is perhaps too popular? Since Google Trends began tracking search term popularity (2004), the word "Recession" is at its peak in popularity as a search-word in Google. Meanwhile, St. Louis Federal Reserve Bank President Bullard noted that the fears of U.S. recession were overblown specifically that, "Households seem to be in great position to spend going forward," he said. "They are flush. They have still $3.5 trillion of kind of Covid aid that is more or less unspent" which is "something on the order of 10% of GDP still sitting in people's bank accounts." [1,4]

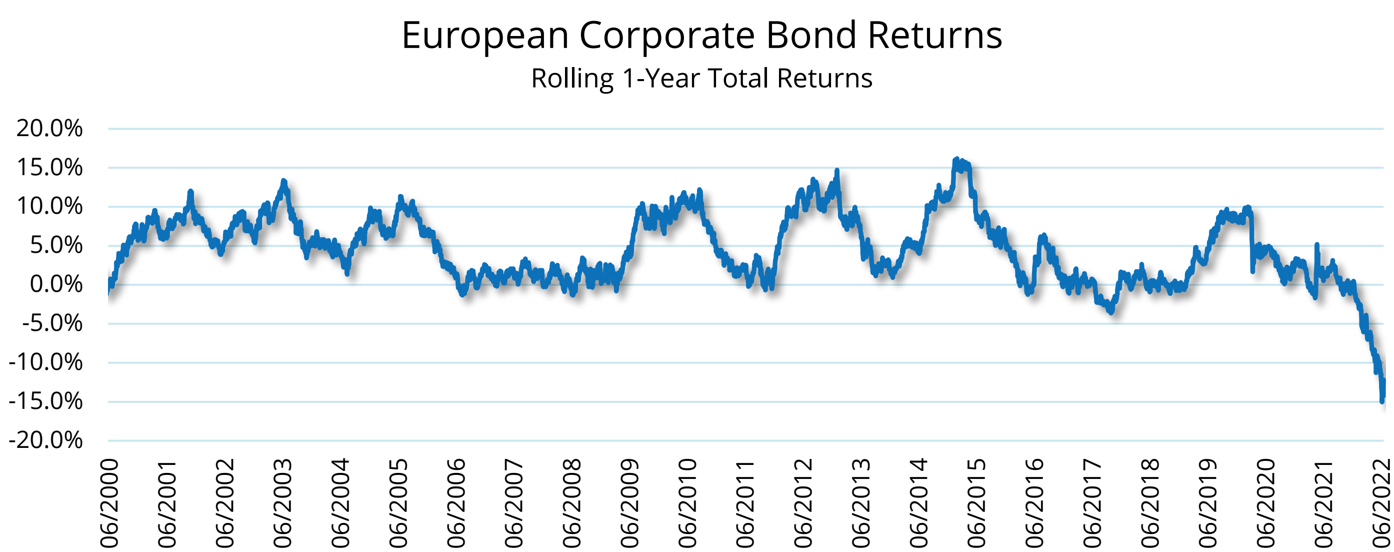
ONE MORE THOUGHT[5]: *Personal savings rates, from all-time highs to fourteen-year lows…but balance sheets still strong*

The extraordinary fiscal response in response to the pandemic helped to lift savings rates to record levels with over $6.0 trillion dollars parked away by individuals in early 2020. *One point worth noting that we'll touch on down the road, is the "excess savings" witnessed is simply the other side of excess government spending*. Buoyed by stronger household balance sheets, wage gains, and job growth, households have drawn down savings as a percent of disposable income to fourteen-year lows and well below the 22-year average. What we have seen since the early-2020 period is a rapid normalization of savings rates as the economy reopened and consumption resumed — primarily in the

[1] *Bloomberg LP*
[2] *https://www.nar.realtor/newsroom/existing-home-sales-fell-3-4-in-may-median-sales-price-surpasses-400000-for-the-first-time*
[3] *http://layoffs.fyi/*
[4] *https://trends.google.com/trends/explore?date=all&geo=US&q=recession*
[5] *https://www.fitchratings.com/research/non-bank-financial-institutions/credit-card-balance-growth-not-yet-harbinger-of-us-consumer-stress-22-06-2022, Apollo Group, Federal Reserve Bank of St. Louis, Bloomberg LP*

goods part of the economy which has notably experienced nearly 10% inflation year-over-year. Importantly, as Bullard noted above, despite the spending, households continue to sit on significant cash balances. Meanwhile, spending on services represents 65% of overall consumer spending and remains below pre-pandemic levels of nearly 70% — not surprisingly, the year-over-year inflation in services related expenditures is nearly half that of goods inflation. This, of course, explains a good deal looking backwards but when looking ahead, consumer spending is expected to shift more towards services and high frequency spending data continues to corroborate that point of view. The consumer has remained resilient up until now considering the overall inflation backdrop. As spending between goods and services continues to normalize (out of goods into services), we expect that the difference between services and goods related inflation rates would similarly narrow.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, as of June 24, 2022, Bloomberg Pan-European Corporate Bond Index total returns, Rolling 1-Yr daily

Rising interest rates across Europe have helped spur never before seen losses in corporate bond markets across the Euro area. As Q2 2022 draws to a close, the Bloomberg Pan-European Corporate Bond Index retreated by -15% over the past 1-Yr period — surpassing even the worst rolling 1-Yr stretch observed during the Great Financial Crisis of 2008-2009.

Research Corner will not be distributed Monday, July 4th and will resume Monday, July 11th.

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